# BOOK REVIEWS

*Value and Distribution.* By Herbert Joseph Davenport. The University of Chicago Press, 1908. Pp. xi+582.

This book, the reviewer believes, will in future years rank as the best and ripest fruit of a period of intensive critical study of economic theory. In its general make-up it resembles Cannan's *Theories of Production and Distribution,* but it is at once broader and narrower in its scope—broader, in that it subjects to criticism the later as well as the earlier developments of theory; narrower, in that it limits itself to the field of value. In the title-page the work is described as constructive as well as critical. In fact, however, it is constructive only in so far as every sound work of criticism must be constructive, that is, it represents a definite point of view, and from time to time offers a substitute for a concept that it demolishes. Exception must, however, be made of the fragmentary studies, of more or less relevancy to the general argument, attached to the text like "riders" upon appropriation bills. Some of these are indeed constructive, and some of them—notably the theory of crises suggested in the note beginning on p. 244—would demand attention if space limitations permitted.

The author's point of view is that of the business entrepreneur in a competitive economy. This is declared to be the only point of view having theoretical significance (pp. 172, 254). Contrasted with it is the collectivist point of view, which is indicated with appropriate vagueness at various points in the discussion. There is, of course, a third point of view, that of the great majority of writers on economics, which leads to a study of the relations between private enterprise and public policy. This viewpoint, the reviewer infers, would be condemned by Professor Davenport as utterly unscientific, on the ground that it seeks to unite what nature and logic have put asunder—the private and the collectivist concepts.

What the entrepreneur point of view is, and what its practical bearings, the reader is left to infer from expressions of opinion scattered throughout the book. Indeed, the author nowhere definitely states what the entrepreneur is, or what his functions are. We must, therefore, infer that these terms are employed in their accepted meaning (if there is such a thing). The reviewer infers

that the entrepreneur point of view signifies that all problems of value and cost are viewed as the individual entrepreneur views them. There will, then, be no question of the cost of a particular portion of the supply to an industry as a whole, but only of a particular unit of the output of a single business. The distinction between price-determined and price-determining incomes does not exist for the individual entrepreneur (but how about the fixed and the variable expenses of a railway or other modern enterprise?). Ground rent, monopoly return, the usual rate of police and legislative blackmail, etc., are costs to the entrepreneur, just as wages or interest on borrowed capital, and hence are price-determining incomes, if the conception of price-determining incomes be admitted at all. Capital ceases to be a technological category; it is made to include "in the *price aspect,* patents, copyrights, trade marks, business connections, reputation, good-will, privilege, government favor, franchise royalties, rights of toll and tribute, rents, mortgage rights, personal claims," etc. (p. 152). The conception is not altogether new, for does not one of Balzac's blackmailers describe his victim as his *homme-capital?* That the conception is an inevitable one from the entrepreneur point of view Professor Davenport makes abundantly clear.

It also follows that from this point of view the supply side of value determination appears more important than the demand side; cost of production appears more important than utility (see p. 550). For what has the entrepreneur to do with demand or utility? It follows that to the margin, as a price-determining fact, is ascribed very slight potency (p. 437 *et passim*). The entrepreneur adjusts his margin to the price; so far as he is concerned, price is fixed at the margin, not by the margin. It follows that the tripartite classification of productive factors—or, for that matter, any classification—is meaningless. What remains to study is the entrepreneur, laying out his funds on whatever suits his productive idiosyncrasies—this "whatever" being entrepreneur capital reduced to homogeneity in terms of price.

It is a pertinent question whether a view that is blind to so many distinctions that nevertheless appear to persist will discover any truth that is of practical significance. Let us suppose that a citizen desires enlightenment upon one of the many vexing questions of practical economic policy. Let it be proposed, for example, to deprive a protected industry of privileges through removing that

part of the duty which exceeds the difference between American and foreign cost of production. Our entrepreneur theory tells us that the privilege we seek to remove is itself a part of the cost of production. Let it be proposed to fix railway rates at a level which will give just a fair return on invested capital. Our theory tells us that there is no distinction between capitalized overcharges and investment in rolling stock. Let it be proposed to levy taxes in such a way as to derange production as little as possible. Our theory denies that some portions of the supply of a commodity are less sensitive to taxation than others. Suppose that we desire to separate the fruits of toil and saving from the plunder of the grafter. Our theory drones philosophically, "All is one, all is one." Economic theory of such invincible impartiality is a discipline, not for men grappling with the problems of practical economic policy, but for the gods who dwell at ease.

It is not, however, to be understood that the validity of the criticisms of economic doctrine that compose the greater part of the work depends upon the validity of the author's general views of the field of economic theory. Professor Davenport has attacked bad logic wherever he has found it, and it is astonishing how much bad logic he has discovered. Passing over the criticism of the labor theory of value—which is very well done; so well, in fact, that if anything can lay a wan ghost, that theory should haunt economics no more—and the searching criticism of the Austrian theory of value—again the best work of its kind that has been done—we may best employ our limited space in an examination of the criticism of the productivity theory of distribution. The essence of that theory is, as everyone knows, that under perfect competition each productive agent—or its owner—tends to receive a remuneration equal to its value product. We may group under three heads Professor Davenport's objections to this theory: (1) The entrepreneur cannot know what the value productivity of a particular agent is, since this productivity cannot be separated from that of other agents co-operating with it (p. 365); (2) The value productivity of any agent varies from establishment to establishment; hence only the marginal entrepreneur can be supposed to make over to the agent its entire product (p. 364); (3) Productive agents can be reduced to homogeneity only on a basis of earnings, consequently the productivity theory is reducible to the proposition that a factor in production gets what it gets (p. 471).

As to the first objection, Professor Davenport admits that the entrepreneur knows how much he can afford to pay for a productive good, to go with his other goods and his own powers (p. 365). Now, exactly this is what most adherents of the productivity theory understand by the productivity of a good: what it will, when added to a pre-existing group of goods, add to the value of the output as a whole. What else can economic productivity signify? Physical causation? Wieser abolished that conception long ago.

But here our author again enlists a difficulty that has performed many years' service for critics of economic theory, and that ought by this time to have been dismissed. Three goods, in combination, produce a value of 10; each by itself would produce 3. Take any one away from the combination; the net loss will be 4. But if a product of 4 is therefore imputed to each, the total product appears to be 12, an error of 2.

Now let us combine 100 units of each factor with 100 of each of the others, with the result that the total product is 1,000. Take away one unit of one factor. Will the loss be 4? Hardly. The removal of one man from a regiment does not entail so many complications as the removal of one man from a boxing match. The principle involved is simply one of elementary mathematics. The smaller the unit, the less the proportionate error. As the units of productive agency can never be infinitesimal, the error can never be completely removed. But why all this bother about so small a matter? Where does matter exactly obey the laws whereby alone mind can comprehend it? Must we cease thinking because our thoughts cannot fit perfectly into all the irregularities of concrete fact?

If it were shown that the greater the intensity of the competitive process and the more completely the separate embodiments of productive agency are reduced to homogeneous efficiency, the greater would be the error in the calculation of productivity, the productivity theory would indeed become indefensible. But no pretense is made of showing this. Instead, the discussion is kept on the plane of the theorem that the swift Achilles can never overtake the tortoise.

The second objection, that the productivity of a unit of productive agency varies from establishment to establishment, is of a piece with the first. All establishments pay the same price for a productive good; none pays more than it is worth. What sets a limit to the acquisition of each particular kind of productive good in

each establishment? Does not each entrepreneur add such goods so long as it pays—that is, so long as the addition to value product exceeds the price paid? And does this not leave productivity in the different establishments at a uniform level? Not exactly; I may have one blast furnace that more than pays, yet I could not use another. But does the unique good play a larger and larger part in business transactions, or is it rather the graded good that tends to play the more important part? This question must be answered before we decide to abandon a theory because of the marginal inexactitudes inherent in concrete facts.

Finally, as to the impossibility of reducing productive agency to homogeneous units on some basis other than value productivity, the author does not commit himself absolutely to the view that the productivity theory stands or falls with the possibility of such a reduction to homogeneity. He merely shows that the reduction has not been made. How equate carpenter's labor to terms of violinist's labor? It cannot be done.

But fortunately the productivity theory requires no such feat. So long as there are grades of productive agency, the productivity test can be made. One grade can be compared with another only in terms of value productivity; but within each grade there is a physical basis of homogeneity. A tripartite classification of economic goods would serve the purpose of the productivity theory little better than a million-partite classification. Classification alone is essential.

The reviewer grieves to note that Professor Davenport lends his support to Hobson's ill-judged attack upon the "dosing" method. Hobson's criticism of that method appears to be based upon the assumption of an inelastic unit of entrepreneurship in the presence of practically unlimited (though valued) supplies of other productive goods, which are absorbed by the entrepreneurship unit in just the proper proportions, each unit of labor being accompanied by the proper amount of land, machinery, raw materials, etc. The entrepreneur of real life neither finds entrepreneurship a fixed quantity, nor all other productive goods elastic quantities. He finds now one element in his combination fixed, now another. If the fixed element is entrepreneurship (that is, if the entrepreneur is good for running a business, and for nothing else, and if subordinate entrepreneurs cannot possibly get on with him) the margin upon which returns to other agents are reckoned is a personal margin. If the

land is the fixed element, while entrepreneurship, labor, machinery, etc., are variable—a not uncommon case—the margin is a land margin. The reviewer can see no justification whatever for Professor Davenport's view that all margins are personal margins.

If space permitted it would now be in order to point out the many excellences of this book. It appears to the reviewer that very few books that have appeared in recent years are more worthy of careful study than this one. One may accept or reject Professor Davenport's point of view; one may agree or disagree with him in his views of particular doctrines. But one cannot read the book without modifying his own theoretical views in important respects.

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*Die Wertzuwachssteuer; ihre bisherige Gestaltung in der Praxis und ihre Bedeutung für die Steuerpolitik der Gemeinden.* By DR. BOLDT. Dortmund: Druck und Verlag v. W. Truwell, 1907. Pp. 140.

Although an ordinance for the imposition of a tax on the unearned increment of land was recently defeated in Berlin the agitation is being continued successfully in many other German cities. Within the last few months Wetzlar, Flensburg, and Essen have passed such measures and the two former have received the approval of the state authorities. In Herford, Jena, Kreuznach, Linden, Malstatt-Burbach, Marburg, Minden, Mühlheim-Rhein, Reinickendorf, Tempelhof, and Wiesbaden similar ordinances are under official consideration. Accompanying these practical efforts in behalf of unearned increment taxation a very copious literature is being poured forth, most of which, of course, is of ephemeral interest only. A decided exception to this opinion must be made in favor of Dr. Boldt's monograph on *Die Wertzuwachssteuer,* which takes rank fairly with the earlier contributions of Kumpmann and Brunhuber. Kumpmann represented the cautious point of view of the scientific economist, and Brunhuber that of a strong journalistic advocate of the new tax. Dr. Boldt is a professional municipal official who for the last eight years has been a member of the *Magistrat* of Dortmund. If the attitude of his two predecessors be described as representing positive and comparative degrees of favor toward the new tax, Dr. Boldt must be set down as representing the superlative, although his work is entirely free from the callow enthusiasm of